



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

## Fiscal Analysis Memorandum

**CONFIDENTIAL**

**Requestor:** Senators Tillman, Hise and Newton  
**Analyst(s):** Jonathan Tart, Denise Canada, Rodney Bizzell, Emma Turner, and Grant Schwab  
**RE:** Senate PCS to HB 399: Extend Tax Credits/Other Finance Changes

### SUMMARY TABLE

FISCAL IMPACT OF PCS to H399 (\$ in millions)					
	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>
<b>State Impact</b>					
General Fund Revenue	(3.9)	(16.5)	(23.0)	(23.7)	(18.6)
Less Expenditures	-	-	-	-	-
<b>General Fund Impact</b>	<b>(3.9)</b>	<b>(16.5)</b>	<b>(23.0)</b>	<b>(23.7)</b>	<b>(18.6)</b>
Highway Fund Revenue	-	(5.4)	(10.8)	(10.9)	(11.1)
Less Expenditures	-	-	-	-	-
<b>Highway Fund Impact</b>	<b>-</b>	<b>(5.4)</b>	<b>(10.8)</b>	<b>(10.9)</b>	<b>(11.1)</b>
Special Fund Revenues	-	8.2	8.2	8.2	8.2
Less Expenditures	16.9	4.4	-	-	-
<b>Special Fund Impact</b>	<b>(16.9)</b>	<b>3.8</b>	<b>8.2</b>	<b>8.2</b>	<b>8.2</b>
<b>NET STATE IMPACT</b>	<b>(\$20.8)</b>	<b>(\$18.1)</b>	<b>(\$25.6)</b>	<b>(\$26.4)</b>	<b>(\$21.5)</b>
<b>Local Impact</b>					
Local Revenue	(1.4)	(1.4)	(1.5)	(1.6)	(1.6)
Less Local Expenditures	-	-	-	-	-
<b>NET LOCAL IMPACT</b>	<b>(\$1.4)</b>	<b>(\$1.4)</b>	<b>(\$1.5)</b>	<b>(\$1.6)</b>	<b>(\$1.6)</b>



## FISCAL IMPACT SUMMARY

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- Extends the sunset date of the State's Historic Rehabilitation Tax Credit to include expenses incurred by January 1, 2024.
- Reinstates the Mill Rehabilitation Tax Credit for a project that meets certain conditions.
- Extends the sunset date for an existing sales tax exemption for qualifying airlines until January 1, 2024.
- Extends the sunset date for existing sales tax exemptions and refunds for the motorsports industry until January 1, 2024.
- Provides a tax deduction for State economic incentive grants, effective for 2019.
- Allows taxpayers age 70.5+ to roll over distributions to charitable nonprofits tax-free beginning 2019.
- Extends the sunset date for the dry cleaning solvent tax and the annual transfer from General Fund sales tax revenue into the Dry-Cleaning Solvent Cleanup Fund until 2030.
- Maintains the Insurance Regulatory Fee at 6.5% for calendar year 2020.
- Appropriates \$12.5 million in nonrecurring funds from the Collections Assistance Fee Special Fund for the 2019-2020 fiscal year to the Department of Revenue to be used for costs associated with tax systems operations and maintenance upgrades. Appropriates \$4.4 million from the Collection Assistance Fee Special Fund in FY 2019-20 and FY 2020-21 to be used to contract with a vendor to perform identity theft and tax fraud analysis using the Government Data Analytics Center (GDAC).



## FISCAL ANALYSIS

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The table shows the estimated fiscal impact in millions of \$ for the tax provisions:

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Extend historic rehabilitation credit	-	(4.5)	(5.0)	(5.5)	(6.0)
Reinstate mill rehabilitation credit for project meeting certain conditions	-	-	(5.8)	(5.8)	-
Extend sales tax exemption for qualifying airlines (Impact is to the Highway Fund).	-	(5.4)	(10.8)	(10.9)	(11.1)
Extend sales tax exemptions and refunds for motorsports industry	(2.9)	(3.0)	(3.1)	(3.3)	(3.4)
Provide tax deduction for economic incentive grants	Revenue decrease of less than \$1 million per year				
Allow taxpayers 70.5+ to roll over distributions to charitable nonprofits tax-free	(1.0)	(1.0)	(1.1)	(1.1)	(1.2)
Dry Cleaning Solvent Tax (Special Fund)		0.2	0.2	0.2	0.2
Extend General Fund Transfer to Dry Cleaning Solvent Fund (General Fund)		(8.0)	(8.0)	(8.0)	(8.0)
Extend General Fund Transfer to Dry Cleaning Solvent Fund (Special Fund)		8.0	8.0	8.0	8.0

### Historic Rehabilitation Tax Credit

Under current law, the tax credit expires for expenses incurred on or after January 1, 2020. Section 1 extends this expiration date to expenses incurred on or after January 1, 2024. The estimate is based on tax return data showing the historical reduction in tax collections resulting from the credit.

### Mill Rehabilitation Tax Credit

Section 2 reinstates the tax credit subject to certain conditions being met. The estimate is based on specific information pertaining to one particular project.



### Sales Tax Exemption for Qualifying Airlines

Section 3 extends from January 1, 2020 to January 1, 2024, the expiration for a sales tax exemption for sales of aviation gasoline and jet fuel to an interstate air business for use in a commercial aircraft. This extension reduces revenue in the Highway Fund, where the revenue would otherwise be credited. Revenue estimates are based on proprietary data provided by industry, as well as data provided by the Department of Revenue.

### Sales Tax Benefits for Motorsports

Section 4 extends current sales tax exemptions and refunds for professional motorsports teams which otherwise would sunset January 1, 2020; the PCS extends the sunset until January 1, 2024. Fiscal Research used data from the North Carolina Department of Revenue's 2017 Tax Expenditure Report to determine the annual cost of these tax benefits.

### Tax Deduction for Economic Incentive Grants

The estimate is based on information pertaining to the amount of grant disbursements, multi-state income apportionment, and tax rates.

### Allow Taxpayers 70.5+ to Roll Over Distributions to Charities Tax-free

The estimate is based on federal tax data compiled by the Joint Committee on Taxation. The data is adjusted to account for State-level factors to approximate the impact on NC tax collections.

### Transfer to the Dry-Cleaning Solvent Cleanup Fund and Extension of Dry-Cleaning Solvent Tax

Under current law, 15% of the revenue attributable to the State's sales tax on dry cleaning, linen rentals, and certain other similar businesses is transferred into the Dry-Cleaning Solvent Cleanup Fund. This fund also receives the proceeds of the dry-cleaning solvent privilege tax. The privilege tax sunsets on January 1, 2020 and the transfer of the sales tax sunsets as of July 1, 2020. Section 12.14 extends the sunset date on the privilege tax until January 1, 2030 and the sunset on the transfer until July 1, 2030. By prolonging the annual transfer, the PCS reduces General Fund sales tax revenue and increases transfer revenue into the Dry-Cleaning Solvent Cleanup Fund. It also increases tax revenue deposited into the fund.

### Insurance Regulatory Fee

Maintains the Insurance Regulatory Fee at its current rate of 6.5%; doing so has no impact on State revenue.

### Appropriate \$16.9 Million to the Department of Revenue for FY 2019-20

Appropriates \$12.5 million in nonrecurring funds from the Collections Assistance Fee Special Fund for the 2019-2020 fiscal year to the Department of Revenue to be used for costs associated with tax systems operations and maintenance upgrades. Appropriates \$4.4 million from the Collection Assistance Fee Special Fund in FY 2019-20 and FY 2020-21 to be used to contract with a vendor to perform identity theft and tax fraud analysis using the Government Data Analytics Center (GDAC).



## **TECHNICAL CONSIDERATIONS**

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N/A.

## **DATA SOURCES**

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Department of Revenue; US Bureau of Economic Analysis; Securities and Exchange Commission; Moody's Analytics; Internal Revenue Statistics of Income Program; Joint Committee on Taxation

## **FISCAL ANALYSIS MEMORANDUM – PURPOSE AND LIMITATIONS**

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This document is a fiscal analysis of a bill, draft bill, amendment, committee substitute, or conference committee report that is confidential under Chapter 120 of the General Statutes. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts. This document is not an official fiscal note. If a formal fiscal note is requested, please email your request to the Fiscal Research Division at [FiscalNoteRequests@ncleg.net](mailto:FiscalNoteRequests@ncleg.net) or call (919) 733-4910.

